

LAW OFFICES

DRINKER BIDDLE & REATH

PHILADELPHIA NATIONAL BANK BUILDING  
1345 CHESTNUT STREET  
PHILADELPHIA, PA 19107-3496  
(215) 988-2700

SUITE 900  
901 FIFTEENTH STREET, N.W.  
WASHINGTON, D.C. 20005-2503

TELEPHONE: (202) 842-8800  
FAX: (202) 842-8465

TINA M. PIDGEON  
(202) 842-8812

SUITE 400  
47 HULFISH STREET  
POST OFFICE BOX 627  
PRINCETON, NJ 08542-0627  
(609) 921-6336

SUITE 300  
1000 WESTLAKES DRIVE  
BERWYN, PA 19312-2409  
(610) 993-2200

EX PARTE OR LATE FILED

April 4, 1997

BY HAND DELIVERY

William F. Caton  
Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, DC 20554

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Federal Communications Commission  
Office of Secretary

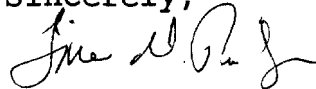
Re: Written Ex Parte Presentation  
CC Docket No. 96-45

Dear Mr. Caton:

Puerto Rico Telephone Company submits the attached ex parte letter for inclusion in the record of CC Docket No. 96-45. The letter was delivered today to the individuals listed below.

Two copies of the letter are included with this notification pursuant to Section 1.1206(a)(1) of the Commission's Rules, 47 C.F.R. § 1.1206(a)(1).

Sincerely,



Tina M. Pidgeon

Enclosures

cc: Chairman Reed E. Hundt  
Commissioner James H. Quello  
Commissioner Rachelle B. Chong  
Commissioner Susan Ness  
Regina Keeney  
Kathleen Levitz  
Tim Peterson  
Tom Boasberg  
Daniel Gonzalez  
James Coltharp  
James Casserly  
Jeanine Poltronieri  
David Krech  
Pamela Gallant  
Pejal Mehta  
Lisa Boehley

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April 1, 1997

VIA HAND DELIVERY

Chairman Reed E. Hundt  
Commissioner James H. Quello  
Commissioner Rachelle B. Chong  
Commissioner Susan Ness  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

Re: Universal Service (CC Docket No. 96-45)

Dear Mr. Chairman and Commissioners:

Puerto Rico Telephone Company ("PRTC") has recently made presentations to the Commission and staff regarding the universal service proceeding and the potential impact of the Joint Board's Recommended Decision on the ongoing universal service effort in Puerto Rico. By this letter, PRTC provides a brief statement of its position and proposals.

Puerto Rico is an insular, high-cost area. In accordance with section 254(b)(3) of the Communications Act, universal service support should be targeted to such an area to ensure that rates are affordable. PRTC is concerned that the Joint Board's Recommended Decision implementing this provision, which permits only rural carriers serving insular areas to receive universal service support based on frozen embedded costs, does not reach Puerto Rico, a decidedly insular area. PRTC does not meet the definition of a rural carrier; however, it is the only carrier in Puerto Rico providing island-wide service, particularly to underserved areas. Therefore, under the Joint Board proposal, the island of Puerto Rico would be disqualified from receiving the USF support intended by Congress to ensure the availability of universal service in insular areas. Given Puerto Rico's low penetration rate (74%) this absence of universal service support would be contrary to the express goal of Section 254. To avoid this result, any carrier serving an insular area should receive universal service support

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based on the mechanism deemed necessary and sufficient to ensure affordable rates for insular areas.

Moreover, if the Joint Board's Decision is adopted in its current form, PRTC may be subject to a proxy rate mechanism, even though none of the proxy cost models has been populated with Puerto Rico data.<sup>1</sup> It is PRTC's experience that the uncritical use of proxy rates can obscure the special high-cost factors faced by any carrier serving Puerto Rico.<sup>2</sup>

The Commission's decision with regard to this issue will directly impact PRTC's continued efforts to achieve acceptable service penetration rates throughout Puerto Rico. The penetration rate in Puerto Rico is 74 percent. Although this rate represents significant strides since the company was acquired in 1974 (when the rate was near 25 percent), the service penetration rate in Puerto Rico is still over twenty percentage points lower than the nationwide average. This fact alone demonstrates that Puerto Rico is precisely the type of area for which universal service support should be targeted.

Two factors continue to make it a challenge to achieve acceptable service penetration rates in Puerto Rico. First, the annual per capita income for citizens in Puerto Rico is half that of the United States and almost half its citizens are below the poverty line (compared with less than 14 percent nationally).<sup>3</sup> Second, because Puerto Rico is an insular, mountainous region, it faces additional high cost factors contributing to an island-wide average annual loop cost of \$410. Therefore, a significant decrease in universal support, including Long Term Support, could result in driving existing low income subscribers off of the

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1. PRTC has proposed also that in the event that it is subject to a benchmark mechanism, that the benchmark itself be adjusted to reflect the particular need for support to be targeted to an area with a low service penetration rate.

2. For example, in the Commission's local competition proceeding, the same proxy loop rate was adopted for Puerto Rico as for New Jersey based on their similar density level. However, the actual loop costs of these carriers differs significantly. For New Jersey, the figure is \$12.70 per month. For Puerto Rico, the figure exceeds \$30 per month.

3. These figures are based on 1995 Census Data.


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network. It could also impede PRTC's network plans for expansion to reach those citizens that still do not have service.

As you continue to consider the Recommended Decision, PRTC urges you to ensure that Puerto Rico is properly treated as an insular area, included in the mechanism to be used to determine universal service support. We would be pleased to answer any questions or provide additional information upon your request.

Sincerely,



María M. Reyes Guevara  
Group Director of Regulatory Affairs

cc: Agustín García Acevedo, Esq.  
Regina Keeney  
Kathleen Levitz  
Timothy Peterson  
Tom Boasberg  
James Coltharp  
Daniel Gonzalez  
James Casserly  
Jeanine Poltronieri  
David Krech  
Pamela Gallant  
Pejal Mehta  
Lisa Boehley  
Jorge Menéndez  
Juan Velázquez Serrano, CPA  
Wilfredo García  
Dave Blessing  
Joaquín Márquez  
Tina Pidgeon